

## **Information Statement Dated July 31, 2006**

This Information Statement contains information regarding the Clark County Investment Pool (the "Pool"). The Pool has been established to provide Clark County and its taxing districts with assistance in the investment of and accounting for cash in excess of expenditure needs, capital funds, and bond proceeds meeting certain criteria denoted below. Taxing Districts include, but are not limited to: school, fire, port, cemetery, drainage, road improvement, emergency management, etc. It also includes cities, transportation agencies and other public entities which desire to participate.

Participation by any one entity will be limited to a maximum of 25% of the total assets of the Pool.

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## **Investment Objectives**

The Pool is designed to:

- Purchase investments, document investment transactions, and account for all funds in a manner that is in accordance with Financial Accounting Standards Board (FASB) and Government Accounting Standards Board (GASB) accounting principles, arbitrage rebate provisions of the Internal Revenue Code and applicable regulations, rulings, and procedures.
- Preserve principal.
- Provide liquidity so that participants in the Pool have ready access to their funds to pay for operating and capital expenditures.
- Provide a prudent level of investment return in the Pool as is consistent with preservation of principal and maintenance of liquidity.

The Pool may invest in any investment (security) authorized by law for the Treasurer of the State of Washington (RCW 39.59.020). However, the maximum maturity of any one instrument purchased for the Pool may not exceed five (5) years to maturity unless matched to a specific cash flow requirement, and the average days to maturity of the pool may not exceed one and one-half (1.5) years.

## Pool Management

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### Treasurer's Investment Strategy Committee

The Treasurer, Deputy Treasurer, Finance Manager, Asset/Liability Manager and Finance Officer meet frequently (usually weekly) to discuss investment strategies, economic conditions, analysis of yield curve shifts, possible Federal Reserve actions, cash flow forecasts, spreads on various investment instruments, and other relevant information relating to investments.

The current members of the Treasurer's Investment Strategy Committee include:

**Doug Lasher, County Treasurer.** Mr. Lasher has been County Treasurer since July, 1984. Mr. Lasher has a Masters in Public Administration from Lewis and Clark College in Portland, Oregon. Prior to his current position, Mr. Lasher worked in the County Auditor's Office as the director of the Licensing Department. He is a past President of the Washington State Association of County Treasurers and on the Board of Directors for the National Association of County Treasurers and Finance Officers. He is also recognized as a Professional Finance Officer with the Washington Finance Officers Association.

**John Payne, Deputy County Treasurer.** Mr. Payne has been the Deputy Treasurer since August, 1985. Mr. Payne is a graduate of the University of Maryland in College Park, Maryland. He is a Certified Public Accountant and a Certified Treasury Professional. Prior to his current position, Mr. Payne worked in the Auditor's Office. He has served on the debt committee and is currently a member (Chair, 2005/2006) of the Cash Management Committee of the Government Finance Officers Association of the United States and Canada, and past President of the Washington Finance Officers Association (WFOA). He also holds a Professional Finance Officer designation with the WFOA.

**Cathy Huber Nickerson, Finance Manager.** Ms. Nickerson has been the Finance Manager for the Treasurer's Office since January, 1993. Ms. Nickerson has a Masters in Public Administration from Lewis and Clark College in Portland, Oregon. She has a Bachelor's degree in Public Administration from Seattle University, is a Certified Governmental Finance Manager, and is recognized as a Professional Finance Officer with the Washington Finance Officers Association.

**Jack Rasmusson, Asset/Liability Manager** Mr. Rasmusson has been the Investment Officer for the Treasurer's Office since June, 2004. He is a graduate of Washington State University with Bachelor's Degree in Business Administration with emphasis in

Accounting. Prior to coming to Clark County, he spent the past 10 years serving in both the private and governmental sectors.

## **Delegation of Authority**

Authority to manage the Clark County Investment Program is derived from the Revised Code of Washington (RCWs) in RCW 36.29.020 which delegates, in part, as follows:

- The Treasurer may invest funds in qualifying investments when authorized by the governing bodies or the relevant municipal corporations or by the County Finance Committee.
- When not already authorized by statute or the Board of County Commissioners, and the governing bodies of the relevant municipal corporations, the County Finance Committee authorizes the County Treasurer to invest any remaining funds in accordance with the Clark County Investment Policy dated June 29, 2006.

The Clark County Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls and procedures to regulate the activities of all staff in investment matters. The Treasurer shall recommend policy changes, as appropriate, to the County Finance Committee and shall be charged with implementing such policy and subsequent policy changes in a timely, prudent, and effective manner. No person may engage in an investment transaction except as provided under the terms of the Investment Policy dated July 31, 2006, and the procedures established by the Clark County Treasurer.

The Treasurer delegates to the Deputy Treasurer the responsibility for recommending any changes, deletions, and/or additions, to policy direction, enhancement of the Investment Policy, internal control mechanisms, or modifications of procedures.

The Treasurer delegates to the Finance Manager the responsibility of daily supervision of all internal and external control aspects associated with ensuring that investment activities are conducted in a manner that safeguards the County and Pool's capital. This includes reviewing and recommending strategies, based upon economic, market, and liquidity factors affecting the active management of the investment portfolio.

The Treasurer delegates to the Asset/Liability Manager responsibility of managing the daily investment activities performed by the Finance Officer. This individual is also responsible for debt management activities.

The Treasurer delegates to the Finance Officer responsibility for

performing all analytical assumptions for developing investment strategies consistent with economic, market and liquidity factors to assist in guiding the investment activities. This individual is also responsible for managing the investment portfolio, ensuring that all necessary tasks are performed to account for and safeguard the investments.

## **Investment Advisor**

The Pool's current Investment Advisor is:

Public Financial Management, Inc.  
One Keystone Plaza, Suite 300  
North Front & Market Streets  
Harrisburg, PA 17101-2044

Clark County may use an Investment Advisor, depending upon budgetary constraints, on an annual basis. This cost will be included within the investment fee assessed based upon an entity's daily principal balance maintained in the Pool.

The role of the Investment Advisor is to provide technical advice to the Treasurer and staff in managing the County's investment portfolio. Some of the items the Treasurer requests the Investment Advisor to review include:

- evaluating the current portfolio and investment strategy, and describing any changes which should be made;
- determining if internal controls, market analysis, portfolio analysis, and reporting practices are adequate; and
- evaluating the Investment Policy and procedures.

## **Intergovernmental Investment Pool Committee**

The Pool encourages participation in discussing investment strategies and objectives through periodic meetings with selected taxing district representatives. The Intergovernmental Investment Pool Committee's (IIPC) purpose is to assist in sharing and distributing information to other pool members regarding pool strategy, and the need for cash management information from the participants. The IIPC is currently composed of a cross section of pool participants from the junior taxing districts. The IIPC meets once a quarter prior to the County Finance Committee meeting.

## **Clark County Finance Committee**

The Pool is currently governed by the Clark County Finance Committee consisting of the County Treasurer, the County Auditor, and the Chair of the County Board of Commissioners. This Committee meets quarterly and reviews the investment policies, strategies, and objectives, as well as the performance of county investments over the prior quarter.

## **Custodian**

All investment transactions shall be conducted on a delivery-versus-payment (DVP) basis, which ensures that securities are deposited at the third-party custodian simultaneously with the release of funds. Securities will be held in a custodial account by a third-party custodian designated by the Treasurer and evidenced by Safekeeping Receipts. The current custodian is:

The Bank of New York Western Trust Company  
Two Union Square, Suite 520  
601 Union Street  
Seattle, WA 98101

Non-negotiable Certificates of Deposit and transactions with the Washington State Local Government Investment Pool, State and Local Government Series Securities and financial institutions with Municipal Investment Accounts are not handled on a DVP basis, and do not fall under this process. Some investments are monitored and settled through the Federal Reserve (Fed) system in a "book entry" format, thus they are not specifically delivered. These book entry transactions are also monitored by safekeeping with corresponding safekeeping receipts.

The current custodian for the Pool's cash balances is:

Bank of America  
805 Broadway  
Vancouver, WA 98660

## **Auditor**

The Treasurer's Office is subject to an annual independent review of its internal controls by the Washington State Auditor, which includes verifying investment securities. However, the Washington State Auditor is not required to annually audit the Clark County Investment Pool. Clark County's accounting cycle is on a calendar year basis.

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## **Purpose of Pooling**

The Clark County Treasurer invests funds collectively in order to better meet investment objectives. RCWs 36.29.020, 36.29.022, and 36.29.024 provide statutory authority for the Treasurer to operate a pooling program. The purpose of the Pool is to allow political subdivisions to pool funds available for investments in order to achieve a potentially higher yield, while maintaining adequate diversification and liquidity. The "Prudent Investor" rule applies to all investments purchased on behalf of the Pool.

The Pool has been created to promote a more efficient mechanism for investing Public funds in larger blocks in order to take advantage of market conditions associated with such larger blocks.

Public entities that participate in the Pool ("Participants") are provided with a convenient method of pooling their liquid cash, as well as bond proceeds and other capital and reserve resources, for temporary investment pending their expenditure. The Treasurer's Office provides record keeping, custodial, and arbitrage rebate calculation services. Participants purchase shares ("Shares") of beneficial interest in the Pool.

The Pool seeks to provide the following benefits:

- **Preservation of Principal** – Investments are only made in instruments authorized by Washington State statute, and in accordance with the Clark County Treasurer's Investment Policy, which is designed to preserve capital. The Pool seeks to maintain, but does not guarantee, a constant net asset value of \$1.00 per share.
- **Liquidity Funds** - All funds invested in the Pool will be immediately available to cover warrants issued by the participants, and other regular disbursements. Deposits are invested in increments of \$1,000 except for bond proceeds money, or other funds with specific restrictions.

Any money received from bond issues will be totally invested and investment withdrawals will typically correspond with expenditures to the exact dollar of the warrants being issued.

- **Income** - The Pool seeks to earn a market rate of return consistent with preserving principal and maintaining liquidity. In order to achieve this objective, participant must indicate maturity levels through cash flow forecasting for cash not immediately needed for expenditures, reserves, capital projects, and note/bond proceeds.

- **Convenience** - Participants in the Pool are not required to schedule investments for liquidity needs, but are required to provide cash flow projections for capital funds and bond proceeds. This allows the Treasurer to enhance returns while maintaining sufficient liquidity for all Pool participants.

Funds can be deposited on a next-day basis, or withdrawn on a next-day basis.

The Pool will be managed based on historical cash flow information and estimated cash flows provided by individual districts on a quarterly basis. **In order to operate the Pool efficiently, the fund manager should disclose to the Treasurer's Office any significant deviation of the projected core investment balance maintained in each fund on a quarterly basis.**

## Professional Management

Investments are managed by investment professionals that follow both general economic and current market conditions affecting interest rates.

## Diversification

Each participant in the Pool will own shares in a diversified portfolio of high quality, authorized instruments. The purpose of diversification is to reduce the overall risk within the portfolio, while attaining market average rates of return. Diversification is required to guard against over concentration of funds in a specific maturity or credit sector, as well as restraining the reliance on specific instruments and issuers.

## Accounting, Safekeeping, and Separate Accounts

The Pool accounts for each participant's investments in compliance with governmental accounting and auditing requirements, and documents all of the accounting and safekeeping associated with the ownership of securities.

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## How to Open an Account

The Pool is an investment option available to all entities who invest, by law, through the Treasurer and those public entities who sign Inter-local Agreements with the Treasurer. To participate in the Pool, a taxing district or other governmental agency must enact an ordinance or adopt a resolution, and sign the attached Interlocal Agreement. Prior to investing any funds in the Pool, the Interlocal Agreement must be completed and submitted to the Treasurer. Pool

participants are allowed to have multiple accounts and subaccounts.

Participants, where the Treasurer is the Treasurer or ex-officio Treasurer, will have funds invested in the Pool, in increments of \$1,000, automatically upon distribution of such receipts to the participant, or upon deposit by the participant to the Treasurer's checking account on a next-day basis. Other participants for which the Treasurer does not serve as Treasurer or ex-officio Treasurer, may either send funds via ACH or wire transfer funds to the Treasurer for investment.

To open an account please contact:

Jack Rasmusson  
Asset/Liability Manager  
Clark County Treasurer's Office  
P.O. Box 5000  
Vancouver, WA 98666-5000  
360-397-2254

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## **How to Withdraw Funds**

Participants may withdraw funds on a next-day basis. Shares in the Pool will be redeemed to cover warrants issued for the participants of which the Treasurer is the Treasurer or ex-officio Treasurer. In order to operate the Pool efficiently, the fund manager should disclose to the Treasurer's Office any significant deviation of the projected core investment balance maintained in each fund (or subaccount) on a quarterly basis.

Those entities for whom the Treasurer is not the Treasurer or ex-officio Treasurer will be required to give one day written notice of withdrawals to the Pool. The Treasurer may either send funds via ACH or wire transfer funds to the entity's designated bank account as detailed in the Participant's Interlocal Agreement. Those entities for whom the Treasurer does not serve as their Treasurer or ex-officio Treasurer and that request withdrawals over \$500,000 must give 90 days written notice, or the following penalty schedule will apply.

## **Maintaining Stability/Penalty for Early Withdrawal**

All funds invested in the Pool will be immediately available to cover warrants issued by the participants and other regular disbursements. However, should a participant choose to redeem Pool shares for the sole purpose of investing those funds outside the Pool, then 90 days written notice shall be required. If a participant requests the redemption on less than 90 days notice, the fund of the participant will be charged a penalty based on a sliding scale depending on how much prior notification is given.



The purpose of the penalty is to provide a mechanism that will maintain the stability of the value of Pool shares. Penalties charged to participants will be distributed to all participants of the Pool on a pro rata basis on the next interest allocation date.

The penalty schedule is as follows:

Number of days notified prior to withdrawal	Percentage of Principal
0 - 10 days	3% of principal balance
11 - 30 days	2% of principal balance
31 - 60 days	1% of principal balance withdrawn
61 - 80 days	.5% of principal balance withdrawn
81 - 90 days	.25% of principal balance withdrawn

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## Investment Fee

Pool participants will be charged an investment fee based on RCW 36.29.024. The average periodic investment fee is currently 9 basis points (.09%) annualized, and will be calculated based on the daily principal balance maintained in the Pool by the participants. For example, if a participant maintained a daily principal balance of \$1 million in the Pool in a 31 day month, and the investment fee charged was 9 basis points, the fund would be charged \$77.50 (\$1 million x .0009 x 31/360).

This rate is determined based upon the **actual costs** of running the Pool, is set by the Treasurer, and is reviewed semi-annually. The rate may fluctuate due to the actual average principal balances being maintained in the Pool differing from the projected balances.

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## Interest Allocation Process

Interest is distributed based on the average daily balance a fund maintains in the Pool, and is calculated using the actual number of days in the month, based on a 360 day year. The total interest distributed to Pool participants will be the total accrued interest earned on securities held for the Pool, during the month of the interest allocation plus or minus amortized premiums/discounts. Gains and/or losses on securities sold early will be factored into the total interest

allocation during any month these gains and/or losses are realized. **Each participant in the Pool will share in relationship to their average daily principal balance in all gains and/or losses realized.**

Interest will be paid on the last calendar day of each month, and will be automatically reinvested as principal.

Unrealized gains and losses are distributed to the participants as follows:

<u>Period</u>	<u>Distribution Date</u>
January-March	March 31
April – June	June 30
July-August	August 31
September – December	December 31

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## Reporting

The Treasurer shall require the staff of the Treasurer's Office involved with the direct investing of public funds to create and deliver a written report to the Deputy Treasurer on a daily basis. The report shall document all actions of the investment portfolio. Summary reports shall be provided weekly indicating any trends, changes, or forecasts regarding the activity of the Pool's portfolio.

### Monthly Financial Reports

Monthly financial reports will be presented to all participants in the Clark County Investment Pool. These reports reflect:

- total principal balances of the investment pool;
- the book value yield on such investments;
- asset allocation of types of investment securities;
- the average maturity;
- the performance on a **total return basis**; and
- appropriate benchmarks for comparison.

In addition, on a monthly basis, the Treasurer's Investment Strategy Committee will receive a written report reflecting the complete portfolio listings and the market value of each portfolio holding, showing unrealized gains and losses.

## **Quarterly Financial Reports**

Quarterly, fully documented reports indicating all actions and activity of the portfolio shall be provided to the County Finance Committee, the Treasurer's Investment Strategy Committee, and the Intergovernmental Investment Pool Committee. The report shall document compliance with all aspects of the investment policy, this Information Statement, and shall describe any trends, problems, and proposed resolutions. In addition, the quarterly report will disclose the following:

- complete portfolio listings as of the end of the quarter for the entire portfolio, and for the Pool;
- the market value of each portfolio holding compared to its book value;
- a summary of all swaps and trading activity, describing the value added;
- asset allocation;
- interest earnings;
- summary of the entire portfolio and the Pool portfolio by issuer;
- economic analysis;
- distribution of the entire portfolio and the Pool portfolio by maturity sectors;
- performance measurement on a total return basis, and a comparison to applicable benchmarks; and
- the market value based **net asset value** reported for all Pool shares.

Minutes of all quarterly meetings will be maintained for historical auditing purposes, by the Secretary of the County Finance Committee (County Auditor).

## **Annual Financial Reports**

The Treasurer's staff is responsible for providing the information necessary to complete the Deposits and Investment Disclosure Notes in the Clark County Comprehensive Annual Financial Report, and

will prepare any other reports as required by the Treasurer or the County Finance Committee.

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## Investment Policy

Please refer to the Clark County Investment Policy dated July 31, 2006 for a more detailed description of the policy and objectives of Clark County.

### Policy

It is the policy of the Clark County Treasurer to invest public funds in accordance with all federal, state, and local governing statutes. The Clark County Treasurer will invest public funds in a manner that preserves capital, allows adequate liquidity for the County and its junior taxing districts, and achieves the highest investment return consistent with the primary objectives of safety and liquidity.

### Primary Objectives

The primary objectives, in priority order, of investment activities shall be:

- 1. Safety:** Safety of principal is the foremost objective of the investment program. Each and every investment shall be undertaken in a prudent manner which seeks to ensure the preservation of capital in the overall portfolio. This objective seeks assurance that capital losses are minimized, whether from securities default, broker/dealer default, or erosion of market value. The County shall seek to preserve principal by mitigating the two types of risk -- credit and market risk. In attaining this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- 2. Liquidity:** The investment portfolio shall remain sufficiently liquid to enable Clark County and its junior taxing districts to meet all operating requirements which might be reasonably anticipated. The Treasurer shall invest in accordance with the Public Funds Investment Act (RCW 39.59).
- 3. Return on Investment:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

## **Authorized Financial Dealers and Institutions**

Investment transactions will be conducted with those broker/dealers recognized by the Federal Reserve as primary dealers, non-primary dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and who are certified members of the National Association of Securities Dealers and those institutions that are qualified by the Washington Public Deposit Commission (RCW 39.58). The Treasurer will maintain a list of financial institutions authorized to provide investment services.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements;
- proof of National Association of Securities Dealers (NASD) certification;
- proof of registration with the State of Washington; and
- Broker/dealer questionnaire and certification of having read Clark County's Investment Policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer. Audited financial statements will be kept on file for each financial institution and broker/dealer in which Clark County invests.

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## **Authorized and Suitable Investments**

RCWs 35.29.030; 36.29.020; 39.59.020; 39.59.030; and 43.84.080 provide authorization for the Clark County Treasurer to purchase various types of security instruments for the County and its junior taxing districts.

Certain public fund investments of the Clark County Investment Pool shall be collateralized. In order to anticipate market changes and provide a level of security for these funds, the collateralization level on repurchase agreements will be 102% of market value of principal plus accrued interest. Collateral (securities pledged to secure repayment of a borrowing) shall be held in the safekeeping or trust department of a bank acting as a third-party custodian.

Authorized and suitable investments of the County Pool are listed below, however, for more specific information regarding restrictions

on each specific instrument, please refer to the Investment Policy

dated July 31, 2006.

- U.S. Treasury Obligations
- U.S. Government Agency obligations and U.S. Government instrumentality obligation
- Banker's Acceptances
- Commercial Paper
- Non-negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Washington State Local Government Investment Pool
- Variable Rate and Structured Notes
- Deposit Notes
- Registered Investment Companies (Mutual Funds)
- Bonds of the State of Washington and any local government in the State of Washington

Other investments authorized by law.

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## **Documentation of Market Price**

The Treasurer will follow certain procedures to document that investments are priced at a "market price" in accordance with requirements of the Clark County Investment Policy, dated July 31, 2006, (see Section XIV) and in accordance with requirements of the Internal Revenue Code and related rulings and regulations. This includes following practices to avoid making "prohibited payments" or receiving "imputed receipts" (as these terms are used in the applicable U.S. Treasury regulations) that improperly reduce the yield on investments.

These procedures include obtaining at least three bids or offers for all security transactions on the secondary market. The County will accept the offer which provides (a) the highest return within the maturity required; and (b) optimizes the investment objectives of the overall portfolio. When selling a security, the County will select the bid which generates the highest sale price.

## **Investment Restrictions**

The Clark County Treasurer's Office is committed to ensuring that "safety of principal" is maintained as the foremost objective of the investment program. This commitment demands that preservation of principal mitigates two critical risks -- credit and market.

### **Credit Risk**

Credit risk relates to the ability of the agency (for example: Federal Home Loan Bank, Key Bank, etc.) or the financial institution issuing fixed income securities to make principal and interest payments in a timely manner. Third party credit rating agencies rate these agencies and financial institutions based on various factors associated with their ability to meet these payments, which includes their risk associated with a potential bankruptcy. As a result the Clark County Investment Pool will only invest in securities and institutions identified in the July 31, 2006 Investment Policy, which further limits the Pool's exposure to untimely payments by diversifying the portfolio and limiting the percentage of the total pool that may be invested with such entities.

### **Market Risk**

Market Risk is reduced by limiting the maximum maturity of any single investment to five (5) years (unless the investment is tied to a specific cash flow requirement), and the average maturity of the Clark County Investment Pool's portfolio to one and one-half (1.5) years. Market value fluctuations occur as changes in the general level of interest rates occur based on economic, social, and political trends of the times. It is recognized in this Information Statement and in the Policy, that in a diversified portfolio, occasional measured losses can occur, and must be considered by the County in its overall return.

### **Diversification**

Given the above considerations, the Treasurer is committed to a diversified portfolio. Diversification of the Pool's portfolio maintains the following standards:

#### **Issuer Specific Standards:**

- No more than 10% of the County's total portfolio can be invested with any one financial institution with security types include Banker's Acceptances, non-negotiable Certificates of Deposit, and Repurchase/Reverse Repurchase Agreements.

- No more than 5% of the County's total portfolio may be invested with any one issuer of Commercial Paper.
- No more than 25% of the County's total portfolio may be invested with any one Federal Agency or instrumentality issuer.
- No more than a total combination of 65% of the County's total portfolio may be invested with the Washington State Local Government Investment Pool or other financial institutions that provide Multiple Investment Accounts or like accounts.
- 100% of the County's total portfolio may be invested in U.S. Treasuries and Repurchase Agreements.

**Security Specific Standards:**

- No more than 40% of the County's total portfolio can be invested in Banker's Acceptances. See Section VIII (3) of the Clark County Investment Policy dated July 31, 2006 for further credit criteria on issuers of Banker's Acceptances.
- No more than 65% of the County's total portfolio can be invested in Federal Agency and instrumentality obligations (all authorized issuers combined).
- No more than 20% of the County's total portfolio can be invested in Commercial Paper.
- No more than 40% of the County's total portfolio can be invested in non-negotiable Certificates of Deposit.
- No more than 40% of the County's total portfolio can be invested in Municipal Investor Accounts or like accounts.
- No more than 10% of the County's total portfolio can be invested in Reverse Repurchase Agreements.
- No more than 10% of the County's total portfolio can be invested in variable rate or structured notes.
- No more than 10% of the County's total portfolio can be invested in Deposit Notes.
- No more than 20% of the County's total portfolio can be invested in bonds issued by the State of Washington and/or any local government in the State of Washington.



## **General Policies on Arbitrage Rebate**

### **Tax-exempt Bond Proceeds**

The Clark County Investment Pool qualifies as an acceptable commingled fund for arbitrage purposes. The Pool will accept bond proceeds subject to arbitrage rebate. Bond proceeds are accounted for separately in investment subaccounts by fund, specific to each bond issue. Each individual district will be limited to maintaining total principal balances of all of their funds combined, to less than 25% of total principal balances of the entire Pool. Any money that exceeds this 25% level will be invested outside of the County Pool for the specific fund.

Each participant issuing bonds will be required to provide projected cash flow schedules associated with each bond issue.

The investment fee charged to Pool participants is considered a "qualified administrative cost" for rebate purposes (in an "external commingled fund"). An "external commingled fund" is a fund in which the issuer, and any related parties do not own more than 10% of the beneficial interest in the fund for any semi-annual period. Any proceeds invested in behalf of any "County" fund would be limited to this 10% principal balance level. "Districts" are not subject to this 10% requirement, because the investment fee is a "direct administrative cost" to the district. These same costs are considered "indirect administrative costs" to the County, and therefore are not considered "qualified administrative costs".

### **Arbitrage Calculations**

The Treasurer's Office contracts for arbitrage services to provide arbitrage calculations for the County and its junior taxing districts for which it serves as ex-officio Treasurer. The Treasurer's Office will pay for one calculation annually per bond issued. Any additional calculations beyond this will be the junior taxing district's responsibility.

### **General Policies**

To further the objective of providing participants with a simplified method of arbitrage rebate compliance, the Pool has adopted a recommended set of practices. The Pool (as well as all investments made outside of the Pool) requires that these practices be followed to minimize the participant's rebate compliance costs. The procedures include the following:

- A participant shall invest all bond proceeds subject to

arbitrage rebate in the Pool on the same day that the bond proceeds are received by the participant. This will enable the Pool to track the investment and expenditure of these funds. However, if a participant owns more than 25% of the Pool, investments will be purchased in securities outside of the pool on the day the bond proceeds are received.

- A participant shall identify all bond proceeds subject to the same bond yield at the time of initial investment. A separate subaccount will be established for each bond issue.
- Federal tax law requires issuers of tax-exempt obligations to make certain rebate payments to the Federal government, or to meet certain expenditure guidelines. If the participant expects to meet one of the expenditure exceptions, the participant must notify the Treasurer when making its initial investment so that the Treasurer can provide information regarding the expenditure of the bond proceeds.
- If the participant expects to make rebate payments, it should note that Federal tax law requires issuers of tax-exempt obligations to meet certain rebate payment requirements at least every five years. However, participants need to account for their rebate liability on an annual basis. The Treasurer will provide estimates of rebate amounts at any time for the participant, and the Treasurer will provide a Rebate Calculation Report more than every five years if requested.
- If the participant is eligible and has elected to pay a penalty in lieu of making rebate payments, it should notify the Treasurer prior to depositing bond proceeds.
- It is recommended that participants not draw down the entire bond proceeds account before providing for any rebate requirement or penalty payment.

If a participant with bond proceeds or parties related to the participant with bond proceeds own more than 10% of the shares in the Pool, such ownership may adversely affect that participant's rebate liability. (See General Information - Bond Proceeds – page 17).

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## **Performance Standards**

The Pool portfolio, as well as investments outside of the Pool, shall be designed with the objective of obtaining a market average rate of return throughout budgetary and economic cycles that is commensurate with investment risk constraints and cash flow needs.

Clark County's investment strategy, for investments placed on behalf of the Pool and investments placed for funds outside of the Pool, is expected to be an active investment strategy the majority of the time.

An inverted curve or high price volatility are examples of circumstances that could cause the Treasurer to switch to a passive strategy. For purposes of evaluating Clark County's Investment Pool performance, a benchmark comparison index will be established. The Book Value Return Indices will include the Washington State LGIP, a nationally recognized short-term mutual fund, and a customized Treasury Index. The Total Return Index will include a customized total return index.

To more fully evaluate the Pool's portfolio performance and to better monitor how the portfolio is reacting to market changes, it is useful to compare performance on a market value or "total return" basis.

### **Book Value Return**

Book Value Return measures the yield at which securities in the portfolio were originally purchased, adjusted for realized gains or losses. This measure ignores changes in the market value of portfolio holdings.

### **Total Return**

Total Return measures the increase in value of the overall portfolio over a given period of time (including income earned and adjustments for deposits/withdrawals). Total return therefore evaluates fluctuations in the value of the principal, rather than simply the income produced.

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## **Valuation of Pool Shares**

The net asset value of shares of the Pool shall be determined by the Treasurer's staff at least on a monthly basis. (A share is defined as what \$1.00 invested is worth based on the market value of the portfolio holdings). The net asset value per share in the Pool is computed by dividing the total value of the securities and other assets of the Pool, less any liabilities, by the total outstanding shares of the Pool.

Liabilities include all accrued expenses and fees of the Pool, including fees of the Investment Advisor, Custodian, and others who provide services to the Pool. These expenses are accrued monthly.

For the purpose of calculating the net asset value per share for the Pool, investments held by the Pool will be valued at cost, plus or

minus any amortized discount or premium. As a result, the price at which shares are sold or redeemed will not reflect unrealized gains or losses on portfolio securities.

The Pool seeks to maintain a net asset value of \$1.00 per share, but there is no assurance that the net asset value will not vary from \$1.00. The United States government, the Clark County government, or the Clark County Treasurer's Office will not guarantee that if an investment is made of \$1.00 at the time of purchase, that the participant will receive the \$1.00 back at maturity (due to changes in market values of securities).

The Treasurer will periodically monitor the relationship between the amortized cost value per share, and the net asset value per share, based upon available indications of market value. The market value basis net asset value per share in the Pool may be affected by general changes in interest rates, resulting in increases or decreases in the value of securities held by the Pool. If interest rates rise after a security is purchased, and this security is sold prior to maturity, the security might be sold at a price less than cost. Similarly, if interest rates decline, and the security is sold prior to maturity, the security might be sold at a price greater than its cost. If a security is held to maturity, no loss or gain is normally realized as a result of these price fluctuations. **Withdrawals by participants could require the sale of Pool portfolio securities prior to maturity.**

In the event that the difference between amortized cost and market value per share exceed \$.01, the Treasurer and the Treasurer's Investment Strategy Committee will consider what, if any, corrective action should be taken to minimize any material dilution or other unfair results that might arise from differences between the two. This action may include distributing the market value gain or loss to all of the Pool participants, suspending interest allocations until the net asset value returns to the \$.99 and \$1.01 band, selling portfolio securities prior to maturity to reduce the average maturity, or to realize capital gains or losses.

If the number of shares is reduced in order to maintain a constant net asset value of \$1.00 per share, participants will contribute proportionately to the Pool's capital, the number of shares which represent the difference between the amortized cost valuation and market valuation of the Pool. Each participant will be deemed to have agreed to such contribution by its investment in the Pool.

To minimize the possible adverse affects of changes in interest rates, and to help maintain a stable net asset value of \$1.00 per share, the Pool will maintain a dollar-weighted average portfolio maturity of not more than one and one-half (1.5) years. The Pool will not purchase any security with a remaining maturity of more than five

(5) years unless matched to a specific cash flow requirement, and the Pool will only invest in securities determined by the Clark County Investment Policy dated July 31, 2006, to be of high quality with minimal credit risk.

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## **Individual Portfolios**

The Clark County Treasurer will invest bond proceeds for those issuers having a greater than 25% participation in the Pool, separately, in specific investment(s) in the name of the participant, for federal arbitrage tax reasons.

Individual portfolios are designed to complement investments in the Pool by providing specific investments for a portion of bond proceeds. They may be deemed appropriate for participants with relatively lengthy project draw down schedules, or for participants that wish to match expected construction draws more closely with investment maturities to fix earnings on some or all of their funds.

Individual portfolios may also be appropriate for the investment of debt service reserve funds, and certain funds subject to investment yield restrictions. The Treasurer will assist each participant in evaluating the possible use of an Individual portfolio. All costs associated with any Individual Portfolio will be charged in accordance with applicable RCWs.

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## **2005 Investment Pool Activity**

During 2005, the Clark County Investment Pool ranged from a dollar volume high of \$612 million, to a dollar volume low of \$391 million.

**ATTACHED HERETO AND MADE A PART OF THIS INFORMATION STATEMENT, IS THE CLARK COUNTY INVESTMENT POLICY DATED JULY 31, 2006, AND A SAMPLE INTERLOCAL AGREEMENT WHICH EACH PARTICIPANT IN THE POOL MUST SIGN PRIOR TO PARTICIPATION IN THE POOL.**